

STATE OF IOWA  
DEPARTMENT OF COMMERCE  
UTILITIES BOARD

IN RE:  INVESTIGATION INTO THE GAS PROCUREMENT AND ALLOCATION PRACTICES AND PROCEDURES OF REGULATED PUBLIC UTILITIES	DOCKET NO. INU-00-6 (M-225)
---	--------------------------------

**ORDER OPENING DOCKET, COMMENCING INVESTIGATION,  
AND DIRECTING RESPONSES**

(Issued March 23, 2001)

On December 28, 2000, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an application requesting the Utilities Board (Board) commence or reopen an investigation into the regulated and non-regulated marketing activities of UtiliCorp United Inc. and its operating division, Peoples Natural Gas Company (Peoples), and order an independent audit of the regulated and non-regulated marketing activities of Peoples. Consumer Advocate proposes that the audit include recommendations of policies, practices, and procedures that should be implemented to prevent subsidization by any customers, discrimination against any customers, and whether Peoples should separate and segregate regulated and non-regulated operations.

Consumer Advocate references a previous investigation by the Board in Docket No. INU-97-1, where the Board declined to order an independent audit.

Consumer Advocate also references anonymous letters received by the states of Missouri, Minnesota, and Michigan as well as Iowa. These letters are attached to Consumer Advocate's application and they allege certain improprieties by Peoples with regard to the allocation of gas costs between regulated customers and non-regulated customers.

On January 9, 2001, Peoples filed a response to Consumer Advocate's application. Peoples states that it understands Consumer Advocate's interest in ensuring that the operations of the gas supply services unit are consistent with Peoples' duty to provide safe, reliable natural gas at just and reasonable rates. Peoples states that it therefore does not oppose the opening of the investigation. Peoples indicates that it has completed a review of its procedures and practices based upon the anonymous letters and the conclusions of that investigation have been disclosed to Consumer Advocate and Board staff. Peoples states that it concluded in the review that the letters mischaracterize and overstate the problems.

On January 16, 2001, Consumer Advocate filed a reply to Peoples' response. Consumer Advocate, in the reply, states that Peoples has claimed attorney-client privilege for the internal investigation and that Peoples does not deny the allegations. Consumer Advocate states that since Peoples does not object to the independent audit, the Board should order it.

Board staff has been monitoring the ongoing four state investigations into the allegations of the anonymous letters. Through this monitoring, staff has followed the

steps taken by the other states and Consumer Advocate to obtain sufficient information to determine whether the allegations are well founded. The monitoring included a meeting in Omaha, Nebraska, at which Peoples made a presentation concerning its gas purchasing activities and its allocation procedures. Peoples has also filed with the Board, in Docket No. M-225, information addressing its procedures.

Based upon the information obtained to this point, the Board does not believe it has sufficient information upon which to make a definitive statement concerning the allegations in the letters. The information provided by Peoples does raise questions about the operation of its gas supply services unit and the allocation of costs between the regulated and non-regulated operations of the company.

The Board also has these same questions about the other rate regulated public gas utilities in Iowa. This winter's dramatic increase in gas prices and the information concerning the utilities' use of, or failure to use, hedging indicates that an investigation should be conducted into the purchasing practices of each company and into each company's allocation practices and procedures.

The Board will docket the investigation requested by Consumer Advocate and expand the investigation to include MidAmerican Energy Company, Interstate Power Company, IES Utilities Inc., and United Cities Gas Company. The Board will include questions as set out below concerning each company's gas purchasing practices and allocation procedures.

The Board finds that this docket should be opened to investigate the practices and procedures of the rate regulated public gas utilities under the Board' jurisdiction. The Board has jurisdiction over the natural gas purchasing practices and procedures of the rate regulated public utilities under the provisions of Iowa Code §§ 476.2, 476.31, and 476.75 (2001). The Board at this time does not have sufficient information concerning the need for an independent audit but believes that it will be able to make that determination after a review of the information obtained in this docket.

Some information has already been filed with the Board by Peoples in Docket No. M-225. The information in Docket No. M-225 will be consolidated into this docket.

### **QUESTIONS**

1. Provide a complete description of the company's natural gas procurement operations, practices, policies, and procedures. Provide a copy of any organizational chart, operating manual, or other document that shows which department or section of the company and which employees engage in the procurement of natural gas and the allocation of natural gas procurement costs for regulated and non-regulated customers.

2. Provide a complete description or explanation of the job duties of employees that procure natural gas for regulated and non-regulated customers. Provide copies of all documents concerning the procedures, practices, policies, and the authority and job descriptions, of the employees that procure natural gas for regulated and non-regulated customers.

3. Provide a complete description or explanation of the actions taken by the company or that the company is contemplating taking to minimize the costs of natural gas for the 2000-2001 heating season and future heating seasons.

4. Provide a complete description or explanation of any overlap or commingling of record keeping, cost accounting, employees, equipment, facilities, or other assets between the procurement of natural gas for regulated customers and non-regulated customers. Provide copies of any documents or records concerning the overlap or commingling.

5. Provide a complete description or explanation of all practices, procedures, or policies that the company has established to protect regulated customers from the financial impact of procuring natural gas for non-regulated customers.

6. Provide a complete description or explanation of any practices, procedures, or policies that the company has established for the use of financial instruments or derivatives in procuring natural gas for regulated or non-regulated customers. Provide copies of all documents or records concerning these practices, procedures, or policies.

7. Provide a copy of all documents, records, or contracts concerning the procurement of natural gas for regulated and/or non-regulated customers, including but not limited to, fixed price contracts, firm swing contracts, financial derivatives, or other contracts used to procure natural gas for regulated and/or non-regulated customers.

8. Provide a complete description of the practices, procedures, or policies that employees follow to allocate costs associated with the procurement of natural gas between regulated and non-regulated customers. Provide copies of all documents concerning the allocation of costs associated with the procurement of natural gas between regulated and non-regulated customers.

9. Provide a complete description or comparison of the price of natural gas procured over the last five years between regulated and non-regulated customers. Provide copies of any documents prepared by the company or in the company's possession that show the comparison.

10. Provide copies of any internal or external investigations, audits, or studies that reviewed the natural gas procurement practices of the company over the last five years.

11. Provide a complete description or explanation of all company practices, procedures, or policies regarding trading of natural gas futures for regulated and non-regulated customers. Provide all documents concerning natural gas trading for regulated and non-regulated customers.

12. Provide a description or explanation of the role of corporate officers, middle management, or supervisory personnel in the procurement of natural gas and the trading of natural gas futures for regulated and non-regulated customers. Provide all documents concerning the role of corporate officers, middle management, or supervisory personnel in the procurement or trading of futures for regulated or non-regulated customers.

13. Provide a complete description or explanation of any procurement practices, procedures, or policies concerning the procurement of natural gas by the company for a wholly-owned subsidiary or affiliate of the company. Provide copies of any documents concerning the procurement of natural gas for the affiliate or wholly owned subsidiary.

14. Provide a contact person's full name[s], address, phone number, job title, affiliate company assigned to and schedule of when the person can be contacted. The contact person will be responsible for providing the Board with either the name of person[s] to answer questions or they will answer the Board's questions about the information filed in Docket No. INU-00-6.

15. Provide the phone number, position description, job title, affiliate company person is assigned to, and address of all persons listed in the information filed in Docket No. INU-00-6. Provide a schedule of when each person can be contacted to answer the Board's questions about the information filed in Docket No. INU-00-6.

## **ORDERING CLAUSES**

### **IT IS THEREFORE ORDERED:**

1. Docket No. INU-00-6 is opened to investigate the practices and procedures of rate regulated public gas utilities concerning the procurement of natural gas for regulated and non-regulated customers.

2. IES Utilities Inc., Interstate Power Company, MidAmerican Energy Company, Peoples Natural Gas Company, Division of UtiliCorp United Inc., and United Cities Gas Company shall provide responses to the questions set out in the order on or before May 1, 2001. The parties shall file one paper copy of their

responses, a disk, and an electronic copy. Electronic copies shall be sent to  
bob.larocca@iub.state.ia.us

3. The information filed by Peoples Natural Gas Company, Division of  
UtiliCorp United Inc., in Docket No. M-225 is consolidated into Docket No. INU-00-6.

**UTILITIES BOARD**

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Sharon Mayer  
Acting Executive Secretary, Asst. to

/s/ Diane Munns

Dated at Des Moines, Iowa, this 23<sup>rd</sup> day of March, 2001.